

Michigan Education Trust

Plans B and C

Actuary's Report

September 30, 2004

December 2004

December 21, 2004

Mr. Jay B. Rising
Chairman of the Board of Directors of the
Michigan Education Trust
Department of Treasury
P. O. Box 30198
Lansing, Michigan 48909

Dear Mr. Rising:

PricewaterhouseCoopers LLP (PwC) in conjunction with Richard M. Kaye & Associates has performed an actuarial valuation of Plans B and C (MET I) of the Michigan Education Trust (MET or the Trust), at the request of the Trust as of September 30, 2004. The valuation is based on data furnished by MET regarding the contracts submitted during the 1988, 1989 and 1990 enrollment periods; unaudited financial data provided by MET; the actuarial basis described herein and the contract provisions in effect for the 1988, 1989 and 1990 enrollments.

This report presents the results of the valuation of the assets and liabilities of MET I in compliance with Act Number 316 of the Public Acts of 1986 and contains information required for financial statement purposes.

The valuation was performed based upon generally accepted actuarial principles, and tests were performed as considered necessary to ensure the accuracy of the results. We certify that the amounts presented in the accompanying report have been appropriately determined according to the actuarial assumptions stated herein.

This report is prepared for the internal use of the Michigan Education Trust. Any external use or distribution of this report is not authorized without prior written approval of PwC.

Respectfully submitted,

Steven A. Skov, ACAS, MAAA
Director, PricewaterhouseCoopers LLP

Richard M. Kaye
Richard M. Kaye & Associates
Consultant to PricewaterhouseCoopers LLP

Michigan Education Trust

Plans B and C

Actuary's Report

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SECTION I -- SUMMARY

This report presents the results of the September 30, 2004, actuarial valuation of Plans B and C of the Michigan Education Trust. The valuation is based on contract data provided by MET and unaudited financial information provided by MET.

This section presents a summary of the valuation results and the funded status of Plans B and C at September 30, 2004.

A. Actuarial valuation highlights

1. Net market value of assets *

	<u>Plan B</u>	<u>Plan C</u>
1. Net market value of assets *	\$635,161,090	\$5,767,011

2. Present value of future benefits and expenses **

Assuming the fund earns 5.00 percent, the interest rate
being earned on the market value of the assets

	\$597,275,524	\$2,877,388
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B. Funded Status

In our opinion, the best estimate of the funded status of MET I is to compare the market value of assets with the present value of future benefits and expenses assuming the fund earns 5.00 percent compounded annually. Accordingly, in our opinion, based upon the assumptions and methods stated in Section V and further described in the following section, as of September 30, 2004, Plan B shows a surplus of \$ 37,885,566 and Plan C shows a surplus of \$ 2,889,623 (A-1 less A-2).

* Using market value of bonds.

** See A, page 15.

Please note that the surplus decreased from last year. The primary reasons for the change are a)-the updating of contract data from last year, and b)- interest earnings in the last year less than expected; offset somewhat by a)- tuition and fee increases in the last year less than expected, and b)- delayed usage of contracts compared to that expected.

SECTION I -- SUMMARY

(continued)

C. Assumptions

This valuation is based on the assumptions and methods stated in Section V.

It should be kept in mind that the soundness determination of MET is based upon many assumptions. There is considerable uncertainty surrounding the significant factors that affect the solvency of the Trust.

The most important assumptions are the discount rate, the rate of increase in tuition, and selection against the Trust by purchasers and beneficiaries. The discount rate was determined based upon the schedule of bonds forwarded by the Michigan Department of Treasury, Bureau of Investments and approved by the Board. The other assumptions were adopted by the MET Board based upon an analysis of alternatives presented by PricewaterhouseCoopers LLP.

It is premised that expected benefit payments will be diversified in duration to allow MET to invest at the assumed investment yield. It is also premised that MET will be able to liquidate its investments in order to meet future benefit payments while still earning the investment yields that are assumed within this report. Any deviation in the actual investment yield from the expected investment yield may materially affect the conclusions within this report.

Investment Yield

The investment yield is the long-term earnings rate expected from the assets of the Trust. The investment yield is net of any investment expenses charged to the Trust.

MET's investment policy objectives include: the avoidance of volatility; the preservation of the real value of the fund; and the maximization of the expected yield. The investment strategy focuses on investment grade fixed income securities.

The investment yield assumption is based on the earnings of the existing portfolio together with estimates of the yields that will be available on reinvestment.

Exemption from Federal Income Taxation of the Trust

Section 529 of the Internal Revenue Code, added by the Small Business Job Protection Act of 1996, H.R. 3448, exempts Qualified Tuition Plans from Federal income tax. MET has received a determination letter from the IRS stating that MET meets the Section 529 requirements.

On November 8, 1994, the U.S. Court of Appeals for the Sixth Circuit ruled that MET is not liable for Federal income taxes. The Internal Revenue Service refunded taxes paid for the years ended in 1988 through 1995.

Rate of Increase in Tuition

The amount paid for each beneficiary who uses a full benefits contract to attend a four-year State Institution of Higher Education will be the resident undergraduate tuition plus mandatory fees. (In this section, "tuition plus mandatory fees" will hereinafter be referred to as "tuition"). Tuition increases reflect effective management of the schools as well as

SECTION I -- SUMMARY

(continued)

general inflation, the rate of increase in state support and real improvements in the quality of educational services. Based on careful analysis, the MET Board selected a tuition increase assumption allowing for improvement in the quality of education above an expected rate of inflation.

The tuition increase assumption adopted by the MET Board is 7% for five years and 7.3% thereafter. It is the same assumption the Board utilized for the most recent pricing.

New Contracts in Future Years

New contracts in future years would serve: a) to expand the base for spreading fixed expenses; b) to increase the likelihood that the MET average tuition cost will not exceed Weighted Average Tuition (WAT) by a significant amount; and c) to ensure a large enough fund balance to invest profitably. As of September 30, 2004, the assumption is that there will be no new entrants to this program.

Selection Against the Trust by Purchasers and Beneficiaries

A basic reason for establishing MET is that the purchase of a contract will increase the commitment of the purchaser to a belief the beneficiary will become qualified to enter college; and that the ownership of a contract will cause the beneficiary to be comfortable with a commitment to academic achievement. (This linkage is sometimes referred to as the "Lang effect", after the philanthropist who guaranteed college tuition for a class of students at his alma mater elementary school.)

Selection against the Trust may cause the amount MET pays to exceed WAT. WAT is measured by weighting the tuition at each school by the number of full-time equated Michigan students at that school. The tuition MET pays will equal the WAT if MET beneficiaries attend the Michigan schools in the same proportions as all Michigan students. On the other hand, if for example, all MET beneficiaries were to attend the University of Michigan, MET would pay tuition much higher than the WAT. Selection refers to the degree to which the MET beneficiaries choose to attend the higher priced schools, and so cause MET to pay out more tuition benefits.

The cost of selection against the Trust by beneficiaries who attend the Michigan public schools is offset somewhat by gains from contracts that are terminated. The payments on contracts that are terminated generally are of lower value than the payments on contracts used to attend the Michigan public schools.

In addition to the key assumptions discussed above and in Section V, the following important assumptions are subject to uncertainty that can be resolved only through the development of meaningful experience in the operation of MET. (A summary of the assumptions and methods is presented in Section V.)

This report assumes that the contract provisions applicable to these 1988, 1989, and 1990 enrollments and the Federal income tax status of the Trust will remain the same and will not be changed through State or Federal legislation or regulation. However, the MET Act and Federal tax laws are subject to change.

SECTION I -- SUMMARY

(continued)

The tuition structure and other characteristics of the future higher education system used by MET beneficiaries will be identical to the system of the 1990's.

This report assumes that loan defaults will be insignificant. A default will result in a payment from MET to a savings institution. Thus, loan defaults will accelerate cash flows from the Trust. The expected defaults do not increase or decrease the funded status, since the payment to the savings institutions will be charged to the individual contract. However, the reduction of the asset and liability balances will affect the stability of the Trust as a whole. The experience with respect to the loan defaults has been favorable.

D. Monthly Purchase Contracts

In 1990, MET sold contracts on a monthly purchase plan. These contracts provide that the tuition credits accrue pro rata over the period for which purchases will be made. We have calculated future liabilities of the contracts recognizing that all monthly purchases have been paid in full.

E. Actuarial Method

The primary purpose of this Actuary's Report is to attest to the actuarial soundness of the Trust. The method used should be sensitive to long-term trends in the rate of increase in tuition and investment income. It should allow year-to-year fluctuations in experience. The method must be adaptable to a growing Trust, and be such that it will be accepted as a reasonable standard.

The method used in this actuary's report is described in Section V.

SECTION I -- SUMMARY

(continued)

F. Historical Summary as of September 30, 2004

<u>Number of contracts</u>	<u>2004</u>	<u>2003</u>	<u>2002</u>	<u>2001</u>	<u>2000</u>
Full benefits	31,092	32,917	36,454	39,263	42,066
Limited benefits	240	262	294	322	353
Community college	<u>899</u>	<u>990</u>	<u>1,126</u>	<u>1,251</u>	<u>1,387</u>
Total	<u>32,231</u>	<u>34,169</u>	<u>37,874</u>	<u>40,836</u>	<u>43,806</u>
<u>Assets</u>					
Market Value	<u>\$640,928,101</u>	<u>\$688,546,357</u>	<u>\$724,885,075</u>	<u>\$734,720,961</u>	<u>\$711,177,618</u>

SECTION II -- MEASUREMENT OF ACTUARIAL SOUNDNESS

The following table sets forth the Trust's funded status at September 30, 2004:

	<u>Plan B</u>	<u>Plan C</u>
1. Present value of future benefits and expenses, assuming the market value of assets earns 5.00 percent compounded annually*	\$597,275,524	\$2,877,388
2. Net market value of assets	<u>\$635,161,090</u>	<u>\$5,767,011</u>
3. Surplus (Deficit) as of September 30, 2004 = (2) less (1)	<u>\$37,885,566</u>	<u>\$2,889,623</u>

- * This figure, which is based on the actuarial assumptions set forth in Section V, represents the market value of assets required as of September 30, 2004, to provide the benefits and expenses of the program as they become due.

SECTION III – ASSETS

A. Summary of Assets at September 30, 2004

1. Cash and cash equivalents	\$ 2,334,964
2. Investments	
a. Short-term investments	\$ 129,364,347
b. Unamortized discount on short-term investments	(18,222)
c. Bonds	<u>501,336,958</u>
Total investments	\$ 630,683,084
3. Receivables	
a. Advances to state general fund	\$ 1,354,504
b. Interest and dividends receivable	5,596,376
c. Due from others	<u>1,045,404</u>
Total receivables	\$ 7,996,283
4. Liabilities	
a. Undisbursed charitable tuition	\$ 4,784
b. Compensated absences	81,446
c. Due to vendors and contract purchasers	-
d. Due to others	<u>-</u>
Total liabilities	\$ <u>86,230</u>
5. Net assets = (1) + (2) + (3) - (4)	<u>\$ 640,928,101</u>

SECTION III – ASSETS

(continued)

B. Changes in the value of assets during the year ended September 30, 2004

1. Value of assets at beginning of year	\$ 688,546,357
2. Changes during year	
a. Additions	
(1) Investment income	\$ 24,919,733
(2) Miscellaneous income	52,386
(3) Net gain on sale of security	15,623,424
	<hr/>
Total additions = (1) + (2) + (3)	\$ 40,595,543
b. Deductions	
(1) Administrative and other expenses	\$ 1,162,274
(2) Amounts paid under contracts	
(a) Tuition reimbursement reinstatements	399,403
(b) Tuition benefits	53,899,392
(c) Termination benefits	
[1] Paid to schools	10,280,797
[2] Death refunds	13,826
[3] Paid to refund designee	<hr/> 5,495,534
Total termination benefits	\$ 15,790,157
Total paid under contracts = (a) + (b) + (c)	<hr/> \$ 70,088,952
Total deductions = (1) + (2)	\$ 71,251,226
c. Unrealized appreciation (depreciation)	<u>\$ (16,962,573)</u>
Net increases (decreases) during year = a - b + c	<u>\$ (47,618,256)</u>
Net value of assets at end of year = 1 + 2	<u>\$ 640,928,101</u>

SECTION IV – CONTRACT DATA

A. Contract Data Summary

	<u>Lump Sum</u>			<u>Monthly Purchase</u>		
	<u>Full Benefits</u>	<u>Limited Benefits</u>	<u>Community College</u>	<u>Full Benefits</u>	<u>Community College</u>	<u>Total</u>
Total as of September 30, 2003	31,540	262	943	1,377	47	34,169
Adjustment for prior years	1,046	2	6	(36)	2	1,020
Contracts paid in full*	<u>(2,750)</u>	<u>(24)</u>	<u>(94)</u>	<u>(85)</u>	<u>(5)</u>	<u>(2,958)</u>
Total as of September 30, 2004	<u>29,836</u>	<u>240</u>	<u>855</u>	<u>1,256</u>	<u>44</u>	<u>32,231</u>

* See C., page 13.

SECTION IV – CONTRACT DATA

(continued)

B. Contracts in Payment Status as of September 30, 2004

	Full Benefits Contracts	Limited Benefits Contracts	Community College Contracts	Total
1. Michigan Public College				
Central Michigan University	533	2	3	538
Eastern Michigan University	487	5	4	496
Ferris State University	245	1	1	247
(Kendall Art & Design of Ferris)	27	0	0	27
Grand Valley State University	411	6	8	425
Lake Superior State University	46	1	0	47
Michigan State University	2,325	12	5	2,342
Michigan Technological University	138	3	0	141
Northern Michigan University	127	2	0	129
Oakland University	346	5	1	352
Saginaw Valley State University	97	1	2	100
University of Michigan-Dearborn	186	0	2	188
University of Michigan-Flint	75	0	3	78
University of Michigan-Ann Arbor	1,554	2	2	1,558
Wayne State University	287	6	3	296
Western Michigan University	<u>1,069</u>	<u>2</u>	<u>0</u>	<u>1,078</u>
Total Michigan Public College	<u>7,953</u>	<u>55</u>	<u>34</u>	<u>8,042</u>
2. Michigan Community College				
Alpena Community College	6	0	2	8
Bay De Noc Community College	4	0	0	4
Delta College	32	1	2	35
Glen Oaks Community College	1	0	1	2
Gogebic Community College	3	0	0	3
Grand Rapids Junior College	60	1	15	76

SECTION IV – CONTRACT DATA

(continued)

B. Contracts in Payment Status as of September 30, 2004

	Full Benefits Contracts	Limited Benefits Contracts	Community College Contracts	Total
Henry Ford Community College	93	2	11	106
Jackson Community College	25	1	9	35
Kalamazoo Valley Community College	88	0	6	94
Kellogg Community College	9	0	4	13
Kirtland Community College	2	0	1	3
Lake Michigan Community College	6	0	2	8
Lansing Community College	203	4	37	244
Macomb County Community College	159	0	32	191
Mid-Michigan Community College	23	0	0	23
Monroe Community College	16	0	1	17
Montcalm Community College	0	0	0	0
Mott Community College	57	0	10	67
Muskegon Community College	13	1	5	19
North Central Michigan College	12	0	3	15
Northwestern Michigan College	36	1	16	53
Oakland Community College	240	5	20	265
Schoolcraft College	123	2	21	146
Southwestern Michigan College	3	0	0	3
St. Clair County Community College	15	0	5	20
Washtenaw Community College	100	0	9	109
Wayne County Community College	19	0	0	19
West Shore Community College	<u>1</u>	<u>0</u>	<u>0</u>	<u>1</u>
Total Community College	<u>1,349</u>	<u>18</u>	<u>212</u>	<u>1,579</u>
Total Active Contracts	<u>9,302</u>	<u>73</u>	<u>246</u>	<u>9,621</u>

SECTION IV – CONTRACT DATA

(continued)

B. Contracts in Payment Status as of September 30, 2004

	Full Benefits Contracts	Limited Benefits Contracts	Community College Contracts	Total
<hr/>				
3. Terminations in Progress				
Reason:				
Private College	734	7	13	754
Out-of-State/Pay School	1,500	7	10	1,517
Out-of-State/ Pay Refund Designee	29	1	1	31
Full Scholarship	140	1	2	143
Not Attending School	522	8	4	534
Attend 4-year College with Community College Contract	0	0	72	72
Attend Community College with Full Benefits Contract	76	1	0	77
Military Termination	<u>17</u>	<u>0</u>	<u>0</u>	<u>17</u>
Total Terminations:	<u>3,018</u>	<u>25</u>	<u>102</u>	<u>3,145</u>
 Grand Total, Contracts in Payment Status	 <u>12,320</u>	 <u>98</u>	 <u>348</u>	 <u>12,766</u>

SECTION IV – CONTRACT DATA

(continued)

C. Contracts Paid in Full in the Year Ending September 30, 2004

	Lump Sum			Monthly Purchase		Total
	Full Benefits	Limited Benefits	Community College	Full Benefits	Community College	
1. Attended Public Colleges	1,761	14	26	60	3	1,864
2. Terminations						
Private Colleges	241	3	6	4	0	254
Out-of-State/Pay College	355	0	4	8	0	367
Out-of-State/Pay Refund Designee	7	0	0	0	0	7
Full Scholarship	63	1	4	2	0	70
Not Attending College	303	5	18	7	0	333
Death	0	0	0	0	0	0
Attending 4-year College with Community College Contract	0	0	35	0	2	37
Attending Community College with Full Benefits Contract	16	1	0	2	0	19
Other	<u>4</u>	<u>0</u>	<u>1</u>	<u>2</u>	<u>0</u>	<u>7</u>
Total Terminations	<u>989</u>	<u>10</u>	<u>68</u>	<u>25</u>	<u>2</u>	<u>1,094</u>
Total Contracts Paid in Full	<u>2,750</u>	<u>24</u>	<u>94</u>	<u>85</u>	<u>5</u>	<u>2,958</u>

SECTION IV – CONTRACT DATA

(continued)

D. Loan Defaults

	Full Benefits Contracts	Limited Benefits Contracts	Community College Contracts	Total
Fiscal Year 1989	53	0	0	53
Fiscal Year 1990	86	1	3	90
Fiscal Year 1991	80	1	5	86
Fiscal Year 1992	68	0	4	72
Fiscal Year 1993	25	0	0	25
Fiscal Year 1994	16	0	0	16
Fiscal Year 1995	20	0	0	20
Fiscal Year 1996	4	0	0	4
Fiscal Year 1997	8	0	0	8
Fiscal Year 1998	9	0	0	9
Fiscal Year 1999	11	0	0	11
Fiscal Year 2000	6	0	0	6
Fiscal Year 2001	0	0	0	0
Fiscal Year 2002	0	0	0	0
Fiscal Year 2003	0	0	0	0
Fiscal Year 2004	0	0	0	0
Total Loan Defaults	<u>386</u>	<u>2</u>	<u>12</u>	<u>400</u>

SECTION V – ASSUMPTIONS AND METHODS*

I. Actuarial Assumptions

A. Discount Rate Applied to Expected Future Cash Flows to Determine Present Value

1. Assumption – Investment yield relating to market value of assets – 5.00%.
2. Basis – Pursuant to analysis of the Michigan Department of Treasury, Bureau of Investments and adopted by the Board, this rate approximates the expected investment yield over the lifetime of the present contracts.

B. Tax Status

1. Assumption -- MET is exempt from Federal income tax.
2. Basis -- On November 8, 1994, the U.S. Court of Appeals for the Sixth Circuit ruled that MET is not liable for Federal income taxes. The Internal Revenue Service has refunded taxes paid for the years ended in 1988 through 1995.
3. Comment -- Future Federal income tax law changes may affect the taxation of MET.

C. Bias -- (e.g., disproportionate use of University of Michigan and Michigan State University)

1. Assumption -- MET will pay tuition benefits that equal 110.0% of MET WAT.
2. Basis -- Analysis of experience through 2004.
3. Comment -- Could be higher, but facts that may prevent higher rate:
 - a. Large number of contracts in force.
 - b. High acceptance standards at University of Michigan (e.g. compared to highest priced school in Ohio and Alabama).
 - c. Limit as to how many may attend University of Michigan and Michigan State University.

* Also, see Section I.C. Assumptions, beginning on page 2.

SECTION V -- ASSUMPTIONS AND METHODS

(continued)

D. Contract terminations

1. Assumption

Use of Contracts

Four-year state schools	70%
Death and disability	1%
Michigan independent	6%
Out-of-state	6%
Scholarship	7%
Community College	7%
No college	<u>3%</u>
	100%

2. Basis -- No longitudinal data on Michigan residents -- based in part on student head counts.

3. Comment -- The pattern of contract use is significant for the valuation because the amount paid by MET is less for terminations than for use at four-year Michigan public schools. See Section VI -- Contract Provisions Valued.

We expect the pattern of contract use to shift toward a smaller portion of use for younger beneficiaries, because the purchaser's knowledge about the beneficiary's prospective career and education is less for younger beneficiaries.

E. New Contracts

Assumption --None.

F. Expenses

1. Assumption -- \$1,886,300 annually (increasing 3.5% a year for inflation) with due recognition of a reasonable expense if the fund falls below \$100 million.
2. Basis -- Budgeted expenses for Fiscal Year 2004-2005.
3. Comment -- Consistent with recent experience.

SECTION V -- ASSUMPTIONS AND METHODS

(continued)

G. Use of Credits

1. Assumption

Percentage of credits remaining per numbers of years purchased

<u>Age</u>	<u>Balance of Credits</u>			
	4 yrs purchase	3 yrs purchase	2 yrs purchase	1 yr purchase
18 & Under	100%	100%	100%	100%
19	76%	67%	55%	15%
20	52%	42%	25%	5%
21	32%	24%	10%	0%
22	14%	12%	5%	
23	7%	5%	0%	
24	4%	2%		
25	2%	0%		
26	1%			
27	0%			

2. Basis -- To be conservative (but see 3 below)

3. Comment -- Students can be expected to delay use, thus providing a benefit to MET. However, an offsetting factor seems to be developing as a meaningful number of students who attend schools with block pricing take the minimum number of credits each term to enable them to remain full-time.

H. Tuition Increase Assumption

1. Assumption -- 7.00% for five years and 7.30% thereafter.

2. Basis for Assumption -- the MET Board chose this assumption.

I. Loadings to Reflect Experience

We now have enough experience of beneficiaries attending school under a MET contract to analyze whether two features of the program will likely cause greater payments than expected. These two features are a)- the ability of a beneficiary to attend a school for which block pricing is in effect resulting in the possibility of having the program pay for more years than purchased and b)- the ability of a beneficiary to have more than 120 credits covered (even though, for example, four years of coverage

SECTION V -- ASSUMPTIONS AND METHODS

(continued)

was purchased) due to being in a specific program requiring more than 120 hours for an undergraduate degree (e.g. Engineering). We have determined that an appropriate load on liabilities to reflect these features to be 2.0%.

II. Actuarial Method

The present value of future benefits is determined by projecting the weighted average tuition cost including mandatory fees at the assumed annual rate of increase and then calculating the expected present value of the future distributions from the Trust based on the investment income and discount rate assumptions.

The value of the Trust assets is determined by the Trust. In the September 30, 2004 valuation, the assets consist primarily of U.S. Treasury bonds and corporate bonds.

The present value of future benefits is compared to the value of assets. In this valuation, a balance is established equal to the difference between the value of the assets and the present value of future benefits. This balance is a measure of the actuarial soundness of Plans B and C.

SECTION VI -- CONTRACT PROVISIONS VALUED

A. Issue Years 1988, 1989 and 1990

B. Benefit Provisions

1. Full Benefits Plan

- | | |
|-----------------------------------|--|
| a. Michigan Public 4-Year College | Full benefits plan provides for tuition and mandatory fees for number of years specified in the contract, from one to four years. |
| b. Community College | If the beneficiary elects to attend a community college, MET will pay the community college tuition cost or the lowest university tuition cost, depending on options selected by the beneficiary. |
| c. Michigan Independent College | If the beneficiary elects to attend a Michigan independent college, the contract may be terminated, and MET will pay tuition to the independent college based on the weighted average tuition cost. If the payment is not made to the college, the amount will be based on the lowest tuition. |
| d. Out-of-State College | If the beneficiary elects to attend an out-of-state college, the contract may be terminated, and MET will pay to the college four annual installments based on the average tuition cost. If payment is not made to the college, the amount will be based on the lowest tuition. |
| e. Full Scholarship | If the beneficiary receives a full scholarship, the contract may be terminated, and MET will pay four annual installments based on the average tuition cost. |
| f. Death or Disability | If the beneficiary dies or has a disability which renders the beneficiary incapable of attending college, the contract may be terminated, and MET will pay one installment based on the lowest tuition cost. |
| g. No College | If the beneficiary does not attend college, the contract may be terminated, and MET will pay four annual installments based on the lowest tuition cost |

SECTION VI -- CONTRACT PROVISIONS VALUED

(continued)

2. Limited Benefits Plan

- | | |
|-----------------------------------|---|
| a. Michigan Public 4-Year College | Limited benefits plan provides for tuition and mandatory fees for the number of years specified in the contract, from one to four years. However, if tuition and mandatory fees exceed 105 percent of the weighted average tuition, the beneficiary must provide the excess. |
| b. Community College | If the beneficiary elects to attend a community college, MET will pay the community college tuition cost or the lowest university tuition cost, depending on options selected by the beneficiary. |
| c. Michigan Independent College | If the beneficiary elects to attend a Michigan independent college, the contract may be terminated, and MET will provide funds to the independent college based on the weighted average tuition at the schools with tuition less than 105 percent of the weighted average tuition. If payment is not made to the college, the amount will be based on the lowest tuition. |
| d. Out-of-State College | If the beneficiary elects to attend an out-of-state college, the contract may be terminated, and MET will pay four annual installments based on the lowest tuition cost. |
| e. Full Scholarship | If the beneficiary receives a full scholarship, the contract may be terminated, and MET will pay four annual installments based on the lowest tuition cost. |
| f. Death or Disability | If the beneficiary dies or has a disability which renders the beneficiary incapable of attending college, the contract may be terminated, and MET will pay one installment based on the lowest tuition cost. |
| g. No College | If the beneficiary does not attend college, the contract may be terminated, and MET will pay four annual installments based on the lowest tuition cost. |

SECTION VI -- CONTRACT PROVISIONS VALUED

(continued)

3. Community College Plan

- | | |
|---------------------------|--|
| a. Community College | Community college plan provides for tuition and mandatory fees for the number of years specified in the contract, from one to two years. |
| b. Other Michigan College | If the beneficiary elects to attend a Michigan four-year public school or a Michigan independent college, the contract may be terminated, and MET will pay tuition to the college in two annual installments as needed based on the community college weighted average tuition cost in the year prior to the contract termination. |
| c. Out-of-State College | If the beneficiary elects to attend an out-of-state college, the contract may be terminated, and MET will pay to the college two annual installments based on the community college average tuition cost. If payment is not made to the college, the amount will be based on the lowest tuition. |
| d. Full Scholarship | If the beneficiary receives a full scholarship, the contract may be terminated, and MET will pay two annual installments based on the community college average tuition cost. |
| e. Death or Disability | If the beneficiary dies or has a disability which renders the beneficiary incapable of attending college, the contract may be terminated, and MET will pay one installment based on the community college lowest tuition cost. |
| f. No College | If the beneficiary does not attend college, the contract may be terminated, and MET will pay two annual installments based on the community college lowest tuition cost. |

SECTION VI -- CONTRACT PROVISIONS VALUED

(continued)

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| C. Transferability | If the contract is transferred to an older beneficiary, MET will charge additional costs, which include a transfer fee, the cost differential between beneficiary ages/grades and MET's loss of investment income. |
| D. Loans | If a purchaser defaults on a loan secured by the contract, MET will reimburse the savings institution for the default, and will reduce the amount of benefits purchased in proportion to the amount remaining after the payment to the savings institution. |
| E. Monthly Purchase | The purchaser of the monthly purchase contract purchases a percent of educational benefits with every monthly purchase amount which is received by MET. A purchaser may choose to make monthly payments over 4, 7 or 10 years. |